

## ***Management's Discussion and Analysis***

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This analysis, prepared by the Town Accountant/Finance Director, offers readers of the Town's financial statements a narrative overview and analysis of the financial activities of the Town of Hingham for the fiscal year ended June 30, 2009. This is the seventh year our financial statements have been prepared under the Government Accounting Standards Board Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the Town's financial statements have significant departures from GAAP the independent auditors may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the Town's bond rating and our ability to borrow money at favorable interest rates. The Town has enjoyed an unqualified opinion on its financial statements for many years.

### **Financial Highlights**

- The government-wide assets of the Town of Hingham exceeded its liabilities at the close of the most recent fiscal year by \$90.6 million and \$36.5 million (net assets) for governmental activities and business-type activities, respectively.
- Of these amounts, 9% or \$12.0 million (unrestricted net assets) may be used to meet the government's on-going obligations to citizens and creditors.
- At the close of the current fiscal year, the Town of Hingham's general fund reported an ending fund balance of \$7.1 million, a decrease of (\$1.8) million over the prior year. Total fund balance represents 9% of total general fund expenditures. Approximately \$6.1 million of this total amount is available for appropriation at the Town's discretion.
- The Town of Hingham's total governmental debt increased by approximately \$32.4 million during the current fiscal year. The increase is the result of \$41.7 million of new issuances (including BANs) primarily for school construction, DPW buildings, and the acquisition of the Lincoln School Apartment building less \$9.3 million of principal payments on debt previously incurred for school construction and various public works projects.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Hingham's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector businesses.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public education, public works, human services, culture and recreation, community preservation, and interest. The business-type activities include the activities of the South Shore Country Club and the Hingham Municipal Lighting Plant enterprise funds.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains four major governmental funds that are presented separately in the governmental fund financial statements. The General Fund is considered a major fund along with the State Fiscal Stabilization Fund, the Affordable Housing Trust Fund, and the New Elementary School Fund. The remaining non-major funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for its general fund and sewer maintenance fund. A budgetary comparison schedule has been provided for both to demonstrate compliance with this budget.

**Proprietary funds.** The Town maintains one proprietary fund type.

*Enterprise funds* are used to report the same functions as business-type activities in the government-wide financial statements, only in more detail. The Town uses enterprise funds to account for its country club and electric lighting operations, both of which are considered major funds of the Town.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Hingham, assets exceeded liabilities by \$127.1 million at the close of the fiscal year 2009.

Government-wide net assets of \$111.3 million (88%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Hingham's net assets, \$3.7 million (3%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$12.0 million (9%), may be used to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Hingham is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Details related to the Town's governmental and business-type activities follow.

**Governmental activities.** The governmental activities net assets increased by \$7.1 million during the current fiscal year as compared to an increase in net assets of \$994,000 during the prior fiscal year. The key element of the change for FY2009 relates mainly to the receipt of \$10.3 million of capital grants for school and DPW construction projects. The increased revenue sources offset increases in expenses, including \$3.6 million of Other Post-Employment Benefits liabilities recorded for the first time in fiscal year 2009.

***Governmental Activities Condensed Statement of Net Assets***

	2009	2008
<b>Assets:</b>		
Current assets.....	\$ 37,424,126	\$ 33,459,841
Noncurrent assets (excluding capital).....	19,833,945	19,483,094
Capital assets, non depreciable.....	55,003,389	16,294,120
Capital assets, net of accumulated depreciation.....	72,814,634	70,209,797
<b>Total assets.....</b>	<b>185,076,094</b>	<b>139,446,852</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	10,047,337	7,215,353
Noncurrent liabilities (excluding debt).....	5,210,747	1,862,623
Current debt.....	8,824,582	9,368,118
Noncurrent debt.....	70,429,667	37,516,803
<b>Total liabilities.....</b>	<b>94,512,333</b>	<b>55,962,897</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt.....	77,520,944	64,238,223
Restricted.....	3,746,298	1,775,597
Unrestricted.....	9,296,519	17,470,135
<b>Total net assets.....</b>	<b>\$ 90,563,761</b>	<b>\$ 83,483,955</b>

Governmental capital assets increased during the year by approximately \$41.3 million. This was the result of \$45.5 million of additions primarily in the areas of land acquisitions and school and DPW buildings. Depreciation expense was recorded in the amount of approximately \$4.2 million. Noncurrent liabilities, excluding debt, includes approximately \$3.6 million of Other Post-Employment Benefits that were recorded as liabilities for the first time in fiscal year 2009.

**Governmental Activities Condensed Statement of Activities**

	2009	2008
<b>Program revenues:</b>		
Charges for services.....	\$ 7,841,164	\$ 7,511,756
Operating grants and contributions.....	18,497,416	17,998,693
Capital grants and contributions.....	10,310,718	-
<b>General Revenues:</b>		
Real estate, personal property taxes, and motor vehicle and other excise taxes.....	59,064,292	55,999,333
Penalties & interest.....	208,962	303,699
Nonrestricted grants, contributions, and other.....	1,964,357	2,326,036
Unrestricted investment income.....	445,427	1,008,741
<b>Total revenues.....</b>	<b>98,332,336</b>	<b>85,148,258</b>
<b>Expenses:</b>		
General government.....	4,631,169	5,990,823
Public safety.....	14,972,434	13,384,339
Education.....	55,777,553	48,223,524
Public works.....	9,592,257	10,240,661
Human services.....	1,276,418	1,119,653
Culture and recreation.....	2,996,585	2,803,297
Community preservation.....	60,905	-
Interest.....	1,945,209	2,187,955
<b>Total expenses.....</b>	<b>91,252,530</b>	<b>83,950,252</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>7,079,806</b>	<b>1,198,006</b>
<b>Transfers.....</b>	<b>-</b>	<b>(203,650)</b>
<b>Change in net assets.....</b>	<b>\$ 7,079,806</b>	<b>\$ 994,356</b>

*Other financial notes related to governmental activities:*

- Charges for services represented 8% of governmental activities resources. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the Town are included in this category.
- Operating grants and contributions accounted for 19% percent of the governmental activities resources. Most of these resources apply to educational operations. These resources offset costs within the school department and supplement their General Fund operating budget.
- Capital grants and contributions accounted for 10% of the governmental activities resources. These mainly consist of state grants for the East elementary school and for the DPW building.
- Property taxes are by far the most significant revenue source for the Town's governmental activities. They comprised 60% of current resources.
- Other taxes and other revenues comprised a total of 3% percent of the governmental activities resources. These primarily include unrestricted contributions and investment earnings.
- Education is by far the largest governmental activity of the Town. Approximately \$30.5 million in taxes and other revenue were needed to cover its Fiscal 2009 operating expenses. A pension contribution of approximately \$7.3 million made by the state on-behalf of Hingham teachers was recorded as an expense and grant revenue.

- Public safety and public works are the second and third largest activities of the Town. Approximately \$12.3 million and \$4.7 million, respectively, of taxes and other revenue were needed to cover their fiscal 2009 operating expenses.

**Business-type activities.** Business-type activities increased the Town's net assets by \$414,000, or 1.4% of total operating revenues. These results continue to reflect management's goal of maintaining the systems while only charging users for the cost of operations.

As shown below, business-type activities assets exceeded liabilities by \$36.5 million at the close of fiscal year 2009. Invested in capital assets, net of related debt was \$33.8 million (92%) while unrestricted net assets were \$2.7 million (8%).

***Business-Type Activities Condensed Statement of Net Assets***

	2009	2008
<b>Assets:</b>		
Current assets.....	\$ 12,256,297	\$ 12,834,075
Noncurrent assets (excluding capital).....	191,006	202,477
Capital assets, non depreciable.....	7,314,844	7,397,949
Capital assets, net of accumulated depreciation.....	28,466,862	27,418,623
<b>Total assets.....</b>	<b>48,229,009</b>	<b>47,853,124</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	6,900,879	6,031,435
Non-current liabilities (excluding debt).....	2,802,811	3,412,876
Current debt.....	309,439	297,966
Noncurrent debt.....	1,697,375	2,006,813
<b>Total liabilities.....</b>	<b>11,710,504</b>	<b>11,749,090</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt.....	33,774,892	32,511,793
Unrestricted.....	2,743,613	3,592,241
<b>Total net assets.....</b>	<b>\$ 36,518,505</b>	<b>\$ 36,104,034</b>

Noncurrent liabilities, excluding debt, includes approximately \$95,100 of Other Post-Employment Benefits that were recorded as liabilities for the first time in fiscal year 2009.

**Business-Type Activities Condensed Statement of Activities**

	2009	2008
<b>Program revenues:</b>		
Charges for services.....	\$ 29,291,277	\$ 28,020,538
<b>General Revenues:</b>		
Unrestricted investment income.....	240,577	411,668
<b>Total revenues.....</b>	<b>29,531,854</b>	<b>28,432,206</b>
<b>Expenses:</b>		
South Shore Country Club.....	1,574,791	1,631,808
Electric Lighting.....	27,542,592	27,488,101
<b>Total expenses.....</b>	<b>29,117,383</b>	<b>29,119,909</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>414,471</b>	<b>(687,703)</b>
<b>Transfers.....</b>	<b>-</b>	<b>203,650</b>
<b>Change in net assets.....</b>	<b>\$ 414,471</b>	<b>\$ (484,053)</b>

The business-type activities were able to increase the combined Country Club and Electric Lighting revenues by approximately \$1.1 million while keeping expenses at virtually the same level as the prior year.

**Financial Analysis of the Government's Major Funds**

As noted earlier, The Town of Hingham uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$20.5 million, an increase of \$4.8 million for the year. The increase is mainly related to the timing of capital expenditures and bond proceeds, as well as the receipt of state grants for construction of approximately \$10 million that were received during the year.

*General Fund*

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$6.1 million, while the total fund balance was \$7.1 million. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. The unreserved fund balance represents 8% of total general fund expenditures, while the total fund balance represents 9% of that same amount.

Fund balance of the General Fund decreased by (\$1.8) million during fiscal year 2009. This is mainly the result of management's planned use of its prior year fund balance in setting the 2009 general fund budget.



### *State Fiscal Stabilization Fund*

The State Fiscal Stabilization fund is used to account for federal funds that were received through the American Recovery and Reinvestment Act. During the last two months of the fiscal year, the Town's state aid was reduced by approximately \$510,000. However, the state aid payment was replaced with a like amount of federal funds. The Town's general fund budget was not adjusted for the late reduction in state funding; rather, eligible expenditures were transferred from the general fund to the state fiscal stabilization grant fund where an equal amount of federal revenues were also recorded.

### *Affordable Housing Trust*

The Affordable Housing Trust fund is a capital project fund established to purchase the land and buildings in Town known as the Lincoln School Apartments. In January 2009, the Town entered into a lease agreement with Lincoln Apartments, LLC, a Massachusetts limited liability company that operates affordable housing for Hingham residents at the Lincoln School Apartments. The affordable housing program is subsidized by the U.S. Department of Housing and Urban Development (HUD).

Lincoln Apartments, LLC is operating in its initial year beginning January 1, 2009 with a year end date of December 31, 2009. The Town believes that the LLC meets the GASB criteria as a component unit of the Town and plans to report it as such in its financial statements for the fiscal year ended June 30, 2010, after the LLC has completed its first year of operation.

During fiscal year 2009 the Town issued short term debt (classified as long-term debt in the financial statements) in the amount of \$6.7 million and received a \$400,000 transfer in from the Community Preservation fund to acquire the property.

### *New Elementary School*

The New Elementary School fund is a capital project fund being utilized for the construction of the new East Elementary School. As of June 30, 2009, the fund has borrowed \$18.6 million of short term debt (\$15.7 million which is classified as long-term debt on the financial statements) and has received \$8.8 million of school construction grants from the Massachusetts School Building Authority (MSBA) towards the construction of this new school. The new school is expected to cost approximately \$26.6 million and the Town has incurred costs of approximately \$22.3 million as of June 30, 2009. The MSBA has agreed to fund 40%, or a maximum of \$10,370,000 of eligible construction costs for this project.

**Proprietary funds.** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original general fund budget appropriations and the final budget of approximately \$767,000 is mainly due to additional appropriations for public safety and public works activities.

Total general fund revenues were slightly less than budgeted amounts mainly due to lower intergovernmental revenues received as discussed below and lower investment income earnings due to the current economic conditions.

During the last two months of the fiscal year, additional cuts in state aid were approved by the state, which reduced the June 30<sup>th</sup> state aid payment to the Town by \$510,000 and replaced it with a like amount of federal stimulus funds. The Town's general fund budget was not changed for the late adjustment in state funding; rather, eligible expenditures were transferred from the general fund to a state fiscal stabilization grant fund where the federal revenue was recorded. This resulted in a revenue deficit and a corresponding under-expenditure in the applicable line items.

Total expenditures and carryovers were also less than budgeted amounts by approximately \$2.6 million. In addition to the \$510,000 saved in the school department as discussed above, virtually every Town department contributed to the savings.

The sewer maintenance fund results of operations had a budgetary surplus of \$80,000 and substantially broke even for the fiscal year. No changes were made to the original budget.

### **Capital Assets and Debt Management**

In conjunction with the operating budget, the Town annually prepares a capital budget which includes detailed information concerning those capital requests for the upcoming fiscal year as well as summary information for the following four fiscal years to identify current projections of what level of capital outlay will be required in future years.

The Town of Hingham has maintained its bond rating of "Aaa" from Moody's Investor Services, "AAA" from Fitch Ratings, and "AAA" from Standard & Poor's. This is a significant achievement as only about 6% of Massachusetts communities receive these highest ratings.

Major capital assets are funded primarily by the issuance of long-term debt and at times from capital grants. For capital assets acquired through debt, the effect on net assets during the construction phase of the project is neutral since the Town increased its assets and associated liabilities by the same amount. For capital assets acquired through capital grants, the effect on net assets is positive since the Town does not use its own resources to acquire the assets. In subsequent years the net assets will be reduced through depreciation and will be increased by the revenues raised to support the debt principal payments. Outstanding long-term debt of the general government, as of June 30, 2009, totaled \$75.8 million, an increase of \$35.1 million from the prior year. Funding for the majority of this debt service is from real estate taxes that have been exempt from the tax levy limitation of Massachusetts' Proposition 2 ½.

The enterprise funds have \$1.5 million in Country Club debt used to install an irrigation system for the golf course that is fully supported by the rates and does not rely on a general fund subsidy.

The Town's major capital projects have been related to school construction, DPW building construction, land acquisition, and the purchase of the Lincoln School Apartments. During fiscal year 2009 the Town has spent approximately \$45.5 million on these projects which have been funded through bond anticipation notes and school construction grants.

Please refer to notes 5, 7, 8, and 9 to the financial statements for further discussion of the major capital and debt activity.

### **Pension Trust Fund**

The Pension Trust Fund (System) recognized total additions/(losses) of (\$25.2) million, including a (\$24.2) million decline in the fair value of its investments. These losses were partially offset by \$2.5 million of interest and dividends received. Total net assets of the System amounted to \$56.6 million at December 31, 2008.

### **Other Post-employment Benefits**

The Town and the Electric Lighting Plant implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of June 30, 2009 and December 31, 2008, respectively. The liabilities for other post-employment benefits have been established based on the respective Annual Required Contributions (ARC) in the amounts of approximately \$3.6 million and \$95,100, respectively. The ARCs amounted to \$7.6 million and the Town contributed approximately \$3.9 million through a combination of benefit payments and pre-fundings to the OPEB Trust fund in the amounts of \$300,000. The assets set aside in trust for future benefits amounted to approximately \$272,000 at fiscal year end.

### **Component Unit**

The net assets of the Component Unit represent the Hingham Public Library, a separate legal entity established in 1872. Net assets decreased during fiscal year 2009 by (\$299,000) as operating expenses exceeded revenues by (\$1.7) million before the financial support from the Town in the amount of approximately \$1.4 million.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ted C. Alexiades, Finance Director/Town Accountant, 210 Central Street, Hingham, MA 02403.